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SUBJECT: WAL-MART ACCEPTS CHINESE LABOR UNIONS

Ref: Guangzhou 25215

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¶1. (SBU) Summary: Since July 29, The All China Federation of Trade Unions (ACFTU) has established unions in at least five of Wal-Mart's 60 Chinese stores (ref). ACTFU has been talking for several years about expanding its representation in foreign-invested enterprises (FIEs), Wal-Mart in particular. Suddenly they have succeeded. Local ACFTU officials told Wal-Mart that they received instructions to organize Wal-Mart from their national (Communist Party-dominated) leadership. This is consistent with press reports that Chinese President Hu Jintao issued an instruction in March to "do more to build Party organizations and trade unions in FIEs." Wal-Mart has now publicly agreed to cooperate with the ACFTU, and will pay the ACFTU a legally-mandated two percent of its payroll in each unionized store. While some outside observers may consider this a victory for ACFTU, it is not a worker-driven process, and ACFTU's track record on protecting workers' rights is poor in any case, due to its conflicting allegiance to the Party and various levels of government. The Wal-Mart unions have more to do with the role of politics in the ACFTU than with advancing workers' rights.
End summary.

¶2. (SBU) Since the end of July, at least five of Wal-Mart's 60 stores in China have established unions. The ACFTU, China's only permitted labor federation, has vowed to organize them all. After a shaky initial public relations response, Wal-Mart issued a press release on August 10, stating it would work "collaboratively with leadership from the ACFTU and union organizations at all levels to create a model working relationship." Joe Hatfield, of Wal-Mart's head office in China, told laboff on August 14 that Wal-Mart decided to issue the statement after consulting with both its headquarters in Arkansas and ACFTU leaders in Beijing. Hatfield said Wal-Mart's usual policy is not to engage with labor unions or other "third parties" in dealing with its employees, but that Wal-Mart decided to be proactive in this case.

¶3. (SBU) Hatfield told Laboff that ACFTU was making approaches to workers in at least half of Wal-Mart's Chinese stores, often furtively or after hours. ACFTU's own accounts in the Chinese press make the same claim, but cite workers' fear of company retaliation as the reason. Hatfield said Wal-Mart wants to bring this organizing activity out into the open. Under the agreement they have reached with ACFTU so far, Hatfield said Wal-Mart will allow ACFTU representatives into its stores to make presentations to workers, and will respect duly registered unions. Wal-Mart will also begin paying ACFTU a legally mandated "union fee" of two percent of its total payroll in all unionized stores, to be shared 60/40 between the store union and local ACFTU office. (ACFTU unions normally do not deduct dues from members wages, although they can legally do so.) Many non-unionized FIEs already contribute 2 percent of their total payroll to workers' social funds.

¶4. (SBU) ACTFU has been talking about expanding its representation in FIEs for several years, hoping to raise union density in FIEs from 20-25 percent to 60-80 percent. Hatfield acknowledged that Wal-Mart resisted ACFTU in the past, but said there has been a political change. He said local ACFTU officials told Wal-Mart that they were specifically instructed by their national, Communist Party-dominated, leadership to intensify their push in FIEs in general, and at Wal-Mart in particular.

¶5. (SBU) An August 15 article in the Xin Jing Bao, a Beijing daily newspaper, may offer an explanation. The article, citing ACFTU sources, reported that Chinese President Hu Jintao ordered more effort to be put into

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building Party and Trade Union organizations in FIEs in March, after reading a Government report on "Factors for Instability in Foreign-Invested Enterprises in China's Coastal Regions." According to the article, ACFTU national vice-chairman Xu Deming followed up by leading an ACFTU study mission to Quanzhou in Fujian Province, where ACFTU failed to create a Wal-Mart union in 2004. ACFTU created a Wal-Mart working group in Quanzhou in May, which spearheaded a renewed organizing effort. The Quanzhou store formed a union, which was registered on July 29, the first at Wal-Mart (reftel). Hatfield noted, and press accounts corroborate, that the number of union members in each unionized store so far is relatively small, e.g., 25-30 workers out of 500. In one store, Hatfield said, about 30 of 40 workers who signed the union petition were not even Wal-Mart employees, but vendor representatives.

¶6. (SBU) Hatfield said Wal-Mart does not consider the formation of ACFTU chapters in its stores a bad thing. Through its cooperation with the ACFTU, Wal-Mart hopes to showcase what a good employer it is, and hopes to eliminate some of the "hard knocks" it has received in the local and foreign press. Hatfield said Wal-Mart abides strictly by local law, even eschewing side agreements with local governments that some competitors use to evade legally-mandated labor standards.

¶7. (SBU) Comment: Under China's Trade Union Law, establishing a union is not difficult. Twenty-five workers (or only ten in Guangdong Province) merely need to petition the local ACFTU office for registration. Employer agreement is not required. What is interesting in this case is not that the unions have been formed, but that it has taken so long. ACFTU blames employer resistance for their low level of representation in FIEs. In fact, it has more to do with lackluster organizing efforts, and ACFTU's inability to convince workers that they are relevant. Now, thanks to some direction from the top, the situation has changed, but no well-informed observer of the China labor situation expects ACFTU unions at Wal-Mart or any FIE to effectively represent their members. By law and in

practice, ACFTU unions are subservient to local Government and Party officials, who generally place a higher priority on attracting investment and maintaining a business-friendly environment. While some observers may consider the creation of these ACFTU unions in Wal-Mart a victory for labor over an intransigent multinational, this case has more to do with the role of politics in the ACFTU than with advancing workers' rights.

Sedney